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U.S.-JAPAN POLICY AND THE NEW JAPANESE GOVERNMENT

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U.S.-Japan Policy and the New Japan...

JOINT HEARING

BEFORE THE

SUBCOMMITTEES ON
ECONOMIC POLICY, TRADE AND ENVIRONMENT
AND
ASIA AND THE PACIFIC
OF THE
COMMITTEE ON FOREIGN AFFAIRS
HOUSE OF REPRESENTATIVES
ONE HUNDRED THIRD CONGRESS

FIRST SESSION

OCTOBER 5, 1993

Printed for the use of the Committee on Foreign Affairs



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(III)

CONTENTS

WITNESSES

Winston Lord, Assistant Secretary of State for East Asia and Pacific Affairs ...	Page 3
Charlene Barshefsky, Deputy United States Trade Representative	7

APPENDIX

Prepared statements:

Hon. Sam Gejdenson	27
Winston Lord	28
Charlene Barshefsky	33

U.S.-JAPAN POLICY AND THE NEW JAPANESE GOVERNMENT

TUESDAY, OCTOBER 5, 1993

HOUSE OF REPRESENTATIVES,
COMMITTEE ON FOREIGN AFFAIRS,
SUBCOMMITTEE ON ECONOMIC POLICY, TRADE AND THE
ENVIRONMENT, JOINT WITH THE SUBCOMMITTEE ON
ASIA AND THE PACIFIC,

Washington, DC.

The subcommittee met, pursuant to call, at 1:45 p.m. in room 2172, Rayburn House Office Building, Hon. Gary L. Ackerman (chairman of the Subcommittee on Asia and the Pacific) presiding.

Mr. ACKERMAN. The committee will come to order.

Today the Subcommittee on Asia and the Pacific jointly with the Subcommittee on Economic Policy, Trade and the Environment meet jointly to explore U.S.-Japan relations and how U.S. policy will adapt to one dimension of the political security and economic changes going on in Asia today. There is a popular saying, if it ain't broke, don't fix it. As a general rule, that is a good idea. But it fails to address a whole category of options that we call preventive maintenance.

With winter just around the corner, you might put snow tires on your car, or if you plan to get around, at least in my congressional district, you might also check to see if there is enough antifreeze and get a tune-up so that you are running efficiently. This is not to imply that the U.S.-Japan relationship is headed for a cold spell or a long winter. On the contrary, I think a lot of what we are hearing from Japan these days is cause for optimism about our relationship. But I would suggest that we are in for a change in the weather.

The U.S.-Japan relationship of the past was marked by a certain stable consistency of external and internal environment. This is no longer as strongly in evidence as it was. The cold war is over, and those particular shared perspectives are gone. In their place new perspectives are emerging, and we will want to ensure that these new perspectives are also shared.

So it makes sense, I think, to look at where we are and where we are headed in this important relationship. To revisit aspects of our multidimensional relationship, if not the underpinnings of the relationship itself. In short, to do a little bit of that routine maintenance.

In the United States, the focus has been on economic reform. The end of confrontation with the Soviet Union has opened an opportunity for the United States to help cut the budget deficit and re-

distribute national resources to address the issues of this decade. Our focus on economic reform also means, among other things, that we are going to insist on more equitable trading relationships with all of our partners, including Japan.

In Japan, the focus has been on political reform, and the agent for that reform is a new government without a single LDP member in the cabinet, a situation unthinkable even a year ago. This is the object of our hearing today.

The winds of change are blowing in Japan. Today we will seek your assessment of how our potential for cooperation with the new Japanese Government on issues of primary importance to the United States, on a broad range of subjects, including economics and trade, security and international political cooperation.

The Diet has reconvened and now I guess we will see in fairly short order how the new government pursues the mandate for change that the Japanese people have given it. We will want your thoughts on that, and also to explore ways in which the administration intends to pursue the opportunities for progress that change frequently brings.

I want to conclude my opening statement by noting that over the past 45 years there has been no more productive, cooperative bilateral relationship than the one between the United States and Japan. This kind of relationship, I am quite sure, will continue, because we have a great number of common objectives and interests. I have no doubt that it will continue to be very much in the interests of both countries to maintain and build upon our close and cooperative ties.

To provide the administration's views on these and other issues, we are pleased to have with us today two very distinguished representatives of the administration's policy on Japan. They are Assistant Secretary of State Winston Lord and Deputy U.S. Trade Representative Charlene Barshefsky.

I will turn to my colleague, Congressman Toby Roth, for an opening statement as well.

Mr. ROTH. Well, I thank you, Chairman Ackerman, and I appreciate what you said in your opening statement and I would like to associate myself with your remarks. I will be brief with my opening statement here in just welcoming our distinguished witnesses today; I join Chairman Ackerman in that.

Japan is undergoing a needed change in its economics and in its politics. We should learn from Japan's problems. They are caught in the worst downturn in 50 years. Japan is struggling desperately to restart its economy.

It has lowered interest rates seven times in 2 years and has passed three economic stimulus packages, but government stimulus packages are not working in Japan, just as they are not working here at home. At the same time the Japanese electorate has wiped the slate clean and replaced its leadership.

The people are fed up with the old order, just as Americans are fed up with business as usual here at home. In this hearing, we are focusing on the impact of the new Japanese leadership on the pending trade and foreign policy issues.

But the real issue is that in today's world, governments seem to be losing control of the economies and are fast losing the faith of

their people. I hope that we can learn from Japan's example and avoid their mistakes, and thus, I am looking forward to the testimony from our two distinguished witnesses today.

Thank you, Mr. Chairman.

Mr. ACKERMAN. Thank you very much.

We will start then with Secretary Winston Lord with whom I have had the great pleasure of working with very, very intimately, I should say, on the details of a great many issues that face us, and I have to confess that I have never found a more cooperative member of an administration since my coming to the Congress who works closely with our subcommittee on all of the issues that face us, and all of the issues that might face us as they appear on the horizon.

Secretary Lord.

STATEMENT OF WINSTON LORD, ASSISTANT SECRETARY OF STATE FOR EAST ASIA AND PACIFIC AFFAIRS

Mr. LORD. Thank you, Mr. Chairman, for your generous comments.

Mr. Chairman, members of this committee, I should say committees, I am pleased to have this opportunity to share views with you on U.S. policy on Japan and the new Japanese Government.

The elections in Japan on July 18 showed a strong desire for change following a long series of political scandals. The Liberal Democratic Party in power in Japan for 38 years lost its majority in the lower house of the Diet. On August 9, Morihiro Hosokawa became the first non-LDP Prime Minister in Japan since the 1950's. The new Prime Minister heads a reform coalition made up of seven parties, representing a wide range of political views, but in seeming agreement on the need for reform of Japan's political system.

The mood of the country is running strongly in favor of change and reform, political reform especially, but also reform of the economic and social structure. Prime Minister Hosokawa so far personifies the effort to bring about change in Japanese society. In his first weeks in office he was garnered a 70 percent support rating, an astonishing reversal in the Japanese public's opinion of its political leadership. If he is able to take advantage of the mood for change, the result could be a significant shift in Japanese political and economic practices.

Our first meetings with top officials of the Hosokawa administration have been excellent. President Clinton met with the new Prime Minister in New York on September 27, and had a very useful and cordial exchange of views with him. Secretary Christopher has had two meetings with Prime Minister Hata and Secretary Aspin has met with Defense Agency Director General Nakanishi.

Secretary Espy will be in Tokyo next week for meetings with top Japanese officials. Congressional delegations have had productive meetings with Japan's new leadership in the past several weeks, and the selection of former Vice President Mondale as Ambassador to Tokyo was very well received by the Japanese, just as it was here at home.

As we have stated consistently, there are three pillars to our relationship. The economic pillar is under stress and needs steadyng

so as not to affect our overall relationship. Therefore, the President and the Secretary of State and others have made clear that the economic aspects of our ties with Japan need urgent attention.

The Japanese global current account surplus, combined with Japan's stagnant domestic economy, presents the most serious potential problem in our bilateral relationship. Japan and the United States maintain one of the most important economic relationships in the world.

We must work to right the economic imbalances that are the source of the contentiousness that has entered our relations. Our economic ties must be balanced and mutually beneficial, and firmly rooted in the shared interest and responsibility of the United States and Japan to promote global growth, open markets, and a vital world trading system.

It is essential that the Japanese recognize that just as we are making necessary and long-delayed adjustments in the U.S. economy, bringing the budget deficit under control, improving our competitiveness, and implementing comprehensive health care reforms, Japan must also implement changes in its economy, boosting domestic demand and adjusting its regulatory and business practices to allow full access to Japanese markets. Additionally, it is crucial that Japan play an active role in bringing the Uruguay Round to a successful conclusion.

We, therefore, look to Japan to undertake forward-looking initiatives on the Uruguay Round talks which must be completed by December 15.

Our U.S.-Japan Framework for Economic Partnership, announced in Tokyo in July is intended to address the economic imbalances in our relationship. Under the Framework, Japan has committed to pursue policies to bring about a, quote, highly significant decrease, unquote, in its current account surplus, both by taking macroeconomic steps to promote domestic demand-led growth and by increasing market access for foreign goods.

The market access issues will be addressed through five different baskets, including government procurement, autos and auto parts, regulatory reform, economic harmonization, which covers several issues, and implementation of existing agreements. The framework agreement also contains a common agenda for cooperation in global perspective, which contains 15 programs for joint efforts on such issues as the environment, AIDS and population growth.

The kick-off meetings for most framework issues were held in Hawaii September 16 through 23. Treasury began talks on the fifth basket, deregulation, in Washington last week. A kick-off meeting of the common agenda for cooperation portion of the framework was held on September 9.

The talks have been organizational in nature and have laid out the basic elements of our proposals in these areas. At the next round of meetings scheduled for mid-October we hope to propose draft agreements in several sectors. We will press for early progress, particularly in the high priority areas of autos and auto parts, government procurement and insurance, for which the framework calls for bilateral agreements by early 1994. Prime Minister Hosokawa and President Clinton are expected to meet to review framework progress in January or February. And my col-

league, Deputy Trade Representative Ambassador Barshefsky, will also want to share her firsthand observations on this process.

We have a timetable in place. We anticipate and expect market opening results because it is in both of our interests to have them. All members of the administration have made it clear we look for concrete steps, and we will monitor negotiations closely to ensure that progress is being made.

It is early to determine whether the momentum of Japan's domestic reform outlined above will work to stimulate tangible progress on our long-standing economic differences. If so, that will be to the benefit of the Japanese consumer, as well as the U.S. exporter.

Both the President and Secretary Christopher have personally urged Prime Minister Hosokawa to undertake forward-looking economic and trade initiatives in coming months to defuse trade tensions. The Prime Minister has promised President Clinton that he will redouble his efforts to make progress under the framework agreement announced in July.

And consistent with this pledge, in his maiden policy speech to the Diet on August 23, the Prime Minister promised to try to cut Japan's current account surplus significantly through the expansion of domestic demand, improved market access for imports and deregulation. We certainly want to work positively with a government pledging a number of constructive economic steps.

The President and the Secretary have also underscored the great value we attach to the security, political and global dimensions of our partnership with Japan. These aspects of our relationship are in sound condition. The Japanese have consistently been among our most important partners and strongest supporters in the international arena.

The change in government in Japan has not altered that. We are in fundamental agreement with the Hosokawa government on foreign and security policy issues. The new government is adhering closely to Japanese long-standing basic foreign policy principles, especially Japan's commitment to its security alliance with the United States.

Our alliance with Japan is a mainstay of our international security posture. Japan is our most important ally in the world's most dynamic economic region, serving as the host nation for key U.S. military installations and providing billions of dollars each year to support the roughly 47,000 American troops based there. Prime Minister Hosokawa has made it clear that this alliance will continue to be the cornerstone of Japan's foreign policy.

We consult closely with Japan, and value its support on a wide range of political and security issues, including Russia, the Korean Peninsula, Cambodia, Vietnam, China, and the Middle East. Japan is a key partner in our efforts to develop a regional security dialogue in East Asia, both through the ASEAN Post Ministerial Conference process and also in northeast Asia.

Japan has played an important role in developing APEC, the Asia Pacific Economic Cooperation forum, and will assume the APEC chairmanship in late 1994. The government has announced that it will support an indefinite extension of the Nuclear Non-

proliferation Treaty. Last week Japan pledged \$200 million in financial support for the peace process in the West Bank and Gaza.

We are increasingly looking to the Japanese to demonstrate leadership on the world stage commensurate with Japan's status as an economic superpower. Prime Minister Hosokawa and key members of his cabinet have stated their recognition of Japan's international responsibilities and their intention to have Japan play a prominent role in addressing the problems facing the international community.

Whether the Hosokawa government can meet growing expectations at home and abroad by turning its initiatives into real policies remains to be seen. But as I stayed in my confirmation hearings, and I believe this now more than ever, our fortunes in Asia, indeed the world, will hinge on developing comprehensive durable ties with Japan. This bilateral relationship remains my highest priority.

In conclusion, Mr. Chairman, this administration is determined to forge a more equitable, positive partnership with Japan as we head toward the next century. To this end, we offer our Japanese friends both reassurance about our intentions, and a sense of urgency about festering frictions. We will maintain a substantial military presence in Asia, cooperate intimately with Japan on regional and global issues, and support its access to a permanent seat in the United Nations Security Council.

In return, equity and reality require more vigorous Japanese performance on economic issues and international responsibility. What is good for our bilateral relations is good for the Japanese citizen. What is called for on the world stage serves Japan's national interest.

America will listen more, lecture less. In turn, Japan should step forward, not in response to American entreaties or pressures, but in a spirit of enlightened self-interest and mutual benefit.

As we strive to strengthen our relations with our most important partner, we will work closely with the Congress. Today's hearing is an important step in that process.

Thank you.

[The prepared statement of Mr. Lord appears in the appendix.]

Mr. ACKERMAN. Thank you very much, Secretary Lord.

Mr. ACKERMAN. Co-Chairman for this hearing, Congressman Gejdenson has a statement.

Mr. GEJDENSON. Without objection, I would like it placed in the record.

Mr. ACKERMAN. No objection, your statement is placed in the record.

[The prepared statement of Mr. Gejdenson appears in the appendix.]

Mr. ACKERMAN. Does any other member have a statement or wish to place one in the record?

If so, without objection, we will do so at the appropriate point in the record.

We will now—we are now privileged to hear from Charlene Barshefsky, who in very short order has made a name and reputation for herself for her command of the issues, and we are delighted to have you before us.

Welcome. You may begin as you will.

STATEMENT OF CHARLENE BARSHEFSKY, DEPUTY UNITED STATES TRADE REPRESENTATIVE

Ms. BARSHEFSKY. Thank you so much, Chairman Ackerman and Chairman Gejdenson.

Mr. ACKERMAN. Could you pull that microphone just a little bit closer to you?

Ms. BARSHEFSKY. Chairman Ackerman, and Chairman Gejdenson, and members of the subcommittees, I appreciate the opportunity to appear before you today to discuss the status of negotiations under the U.S.-Japan economic framework and our trade relations with Japan in general. I ask, Messrs. Chairmen, that my full statement be accepted into the record, and I will simply be brief in my oral remarks before you today.

Mr. ACKERMAN. Without objection, so ordered.

Ms. BARSHEFSKY. Thank you.

We have a broad, complex and intertwined bilateral relationship with Japan. The health of this relationship has a substantial impact on global prosperity and security. Today, the maintenance and growth of this relationship depends on an unprecedented degree on our ability to trade with Japan and to resolve the economic asymmetries that characterize our trading relationship.

Continued barriers to access to the Japan market for competitive U.S. and foreign goods and services stymie American and global economic recovery and growth. As President Clinton has stated, such practices hurt both the Japanese people and the global economy. It is to these practices that the administration's Japan framework is directed.

Over the past several weeks, our negotiators initiated talks under the five baskets of the framework. Those baskets are government procurement, the automotive sector, regulatory reform and competitiveness, economic harmonization, and implementation of existing agreements and arrangements. In these first meetings, we delineated our position, particularly in the areas of procurement, the automotive sector and insurance, three areas in which measures are to be agreed by early January. It is still too early to report to you on progress, but over the next several weeks we will present the Japanese Government with specific proposals in several areas.

Let me turn for a moment to one such area, government procurement, because it symbolizes in many respects the cause of our frustration with past efforts to address barriers to the Japanese market. We look to Japan's compliance with the principles laid down in the framework to address this area in a definitive manner.

Since the late 1970's, U.S.-Japan bilateral trade relations have been plagued with serious and continuing disputes concerning government procurement, with the result that 11 sectoral agreements have been negotiated and all apply on a nondiscriminatory and net end basis. In each case, the Japanese Government has been committed to introduce new procedures that would provide greater transparency and nondiscrimination in Japan's procurement regime.

Typically, as particular problems were addressed in a specific agreement, others arose. Despite the removal of many obstacles

and some progress, with the exception of the communication satellite area, we have not seen significantly increased access to the Japanese Government market for foreign goods and services which the agreements had anticipated. Our expectations for the achievement of tangible results under the government procurement basket and each basket of the framework are captured in the framework agreement.

In the subsectors cited in the procurement basket, telecommunications, medical technology, computers, supercomputers and satellites, U.S. firms are unquestionably competitive world leaders. This has been borne out time and again by the substantial participation of U.S. companies in foreign markets.

Moreover, the ability to implement the framework in this area lies within the direct or indirect control of the Japanese Government. The government controls or influences the size and growth of the procurement market, the products to be procured, the specifications, terms and conditions for the procurement, the timing of the procurement, the winning vendor and follow-on procurement. The government procurement basket is thus a litmus test of Japan's intention to implement the framework. Here, as in every basket in the framework, we will look to tangible results as the only measure of success.

Messrs. Chairmen, there is a new government in Japan. We believe that implementation of the framework agreement on the timetable laid out within the agreement is fully compatible with the goals of the Hosokawa administration. We have noted and welcomed repeated statements by the Prime Minister as well as by members of his cabinet that lend support to the need for real change in Japan. Implementation of the framework, I believe, would assist the new government in achieving that change.

By itself, the framework achieves no market opening. It is the beginning of the process, and it is to the actual negotiation of agreements under the framework to which our full attention and force must be directed. It is critical that the Congress and the administration work closely on these issues that are so important to our economic future. We look forward to close collaboration with you and members of the subcommittees as we pursue an equitable and rebalanced bilateral economic relationship with Japan.

Thank you.

[The prepared statement of Ms. Barshefsky appears in the appendix.]

Mr. ACKERMAN. Thank you very much for your statement and your fuller statement, which of course is made part of the permanent record as well.

Ms. BARSHEFSKY. Thank you.

Mr. ACKERMAN. Let me begin with a couple of general questions, if I might. Upon coming to power, the new Hosokawa government made it clear that its policies, especially its foreign policy, would not differ from those of the previous LDP governments. In the 2 months that have subsequently passed, could you tell us if this is proving to be the case, or do we see any differences?

Mr. LORD. So far it is proving to be the case, Mr. Chairman. We have seen consistency not only in rhetoric, but in action from the new government with respect to its foreign policy and security poli-

cies. They have reaffirmed the alliance; they are participating actively in regional organizations like APEC and regional security dialogues; they are consulting closely across-the-board including on the very key issue of Korea.

There are a couple of new objectives which on the whole I think are very positive. For example, this Prime Minister addressed—more directly than any Prime Minister that I know of—Japan's history during World War II. I think this has a reassuring impact upon Japan's Asia neighbors and will help its foreign policy.

He was squarely behind the indefinite extension of the Non-proliferation Treaty. There was some pause in Japan recently because of the nuclear problem with North Korea, but he put Japan behind the indefinite extension of that treaty. Japan just last week pledged \$200 million, as I said in my opening statement, to the Middle East peace process, and also the Japanese informed us in New York last week that they were pledging \$10 million to Haiti to clear up its debts. So I think they are off to a very positive and reassuring beginning in these fields, Mr. Chairman.

Ms. BARSHEFSKY. Mr. Chairman, may I make a comment as well?

Mr. ACKERMAN. Please.

Ms. BARSHEFSKY. We are certainly encouraged by the statements made by the MITI Minister, as well as recent statements made by Media Minister Kumagai and by the Minister of Foreign Affairs, Minister Hata. With respect to the need for Japan to open its market to become more receptive to foreign goods and services as a way of benefiting the Japanese consuming public, and as a way of encouraging competitiveness among Japanese industries. While we are encouraged by these statements, it is necessary, of course, that the Japanese Government move in the direction suggested by these statements, and that is that Japan become more receptive to competitive foreign goods and services, a receptivity that characterizes trade among the rest of the industrialized nation.

Mr. LORD. Let me say I, of course, fully agree with that statement. I took your question to be confined to foreign policy and security; otherwise, I would have addressed the crucial aspect of economics as I did in my own statement.

Mr. ACKERMAN. We try to leave those things open-ended so you can jump in on any end or both ends at the same time.

Are there any particular policy areas where you would like to see a change in emphasis, if not a change in policy on the part of the new Hosokawa government?

Mr. LORD. Well, I alluded to the two that I would single out in my opening statement. Of course, the economic dimension. There is no question that, as you say, "if it ain't broke, don't fix it." Well, this is something that if it is not broken, it is not in good shape and we have got to fix it urgently for our mutual interests.

I think there is a chance here that this can be done. I hope it can be done quickly enough, because what the Prime Minister has said he wants to do for Japan and its citizens fits very squarely with what we want to happen. The question is whether, with the emphasis on political reform, they will move quickly enough on economic issues to match the timetable that both sides agreed upon. It is very important that this be done.

The other area I think they are moving on is in terms of global responsibilities. I just ticked off a few of those. I think Japan is beginning to take a much more active role in diplomacy and on the world stage reflecting its status as an economic superpower. So those are the two main areas, and of course I think the economic one is by far the most urgent.

Mr. ACKERMAN. Mr. Secretary, you mentioned in your statement that the United States would be maintaining what you referred to as a substantial military presence in the region.

Mr. LORD. Right.

Mr. ACKERMAN. Is that "substantial" by virtue of the fact that it is large by any standards, or is that substantially the same as it is presently?

Mr. LORD. Both. In the recently completed bottoms-up review of the Defense Department, I was delighted to see that our Asian force structure was not touched. The only cuts being considered go back to the previous administration of 6500 troops in Korea. Those have been frozen there correctly because of the nuclear crisis, and they will stay there until the nuclear impasse is resolved.

But as you look to the future, those would be the only ones that might come out, and that is in close consultation with South Korea, and it is a result of South Korea's growing self-reliance. But even those would not and should not be touched until the situation with the Korean peninsula be squared away.

It is extremely important that we maintain our presence there, and it has affected the administration's decisions, the defense cuts have been at the expense of European bases and bases here at home. I think it is interesting to note that within a couple of years, I believe our forces in Asia within a few years will be about the same as our forces in Europe. This is a dramatic shift in emphasis. We roughly have 100,000 forces in Asia and 100,000 in Europe.

I would add also in terms of our credibility in the Asia Pacific region, and perhaps you didn't want this long an answer, but let me just elaborate here, because I think it is important that we maintain this presence, that we have under the new budget great reinforcement capabilities, \$3 billion assigned to produce new ships to reinforce the area and I believe a brigade of troops is being shipped from Korea to Fort Lewis in Washington. So it is not only the forces in the area, it is the reinforcement capability that is a steady influence in the region and underpins our regional security approach.

Mr. ACKERMAN. Let me ask a question concerning Japan's status in the U.N. Security Council. I think the administration has stated, and this, at least my subcommittee believes that Japan does have the necessary credentials. Do you believe that the Government of Japan has the international perspectives and domestic support to be a permanent member of the Security Council?

Mr. LORD. The quick answer is yes. Certainly I can address the international perspective. Domestic support is, of course, better left to the Japanese people. In the Diet, I believe there is wide support for that, but I would let the Japanese speak for themselves.

On the international scene, I did mention that we want to see Japan assume greater responsibilities, but in answer to one of your

questions, I have also said we are moving in that direction. They are the top donor, for example, in the Somali operation.

They have been heavily involved in the Middle East and now have pledged \$20 million, as I mentioned, to Haiti. They played a leading role in the Cambodian peacekeeping operation. The head of that operation was a Japanese. I have said elsewhere that is a stunning success for the United Nations, and if it weren't for the Middle East, I think—this is a personal opinion, not a government opinion—you could make a case for Mr. Akashi and UNTAC to get the Nobel Peace Prize.

Even when Japanese personnel were killed in Cambodia, they kept their force there despite some domestic pressures. They are providing more foreign aid. Their diplomacy is very energetic.

So, if anything, I think they are stepping up to their global responsibilities. They are contributing a lot of money. They are working vigorously in the United Nations and they are contributing to peacekeeping. So I would think they have earned their seat.

I think there is more they can do and I hope they will do, but we support both Japan and Germany becoming permanent members of the U.N. Security Council.

Mr. ACKERMAN. Without any linkage to trade issues?

Mr. LORD. I would not link it to trade issues. It is in our self-interest.

Mr. ACKERMAN. Same answer?

Ms. BARSHEFSKY. Same answer.

Mr. ACKERMAN. Same administration.

Ms. BARSHEFSKY. Same administration.

Mr. ACKERMAN. Well, we have seen it happen before when—never mind.

Chairman Gejdenson.

Mr. GEJDENSON. Thank you. It seems to me that we have about a year for you folks to produce for us, and that trade negotiations are probably the most difficult thing for any administration, especially for a country like the United States that has felt itself to be the premier foreign policy player in the world. We have often submerged our economic interests trying to achieve diplomatic and foreign policy goals around the globe.

My assessment over the last 12 years is the Japanese have definitely used our international interests to keep us at bay in trade negotiations, and that we have had a series of negotiations where administrations have come back, at least the last three administrations, the two—the Reagan and the Bush administration have come back to say that they have made progress and to find that somehow, within a month, 2 months, 3 months, that progress has evaporated.

Super 301 always makes the administrations nervous. I imagine that it would make a Democratic administration as nervous as it made Republican administrations. But it seems to me from my own personal exchanges and from what I have seen that this has to be a much different confrontation than any administration has been willing to make to date.

My first trip to Japan, I checked out electronics equipment before I went over there. I went to Caldors in Norwich, Connecticut, and

a Sony Walkman sold for \$90. So when I got to the electronics market in Tokyo, I couldn't find a Sony for less than \$125.

Now, that is impressive merchandising when you can ship it halfway around the world and it costs less. I asked about insurance and banking then, they said well, those are very immature industries in Japan and we can't allow for international competition. Now our banking is immature, or at least almost belly up in many instances, the Japanese are here, but our insurance companies still only do about 2 percent of the market in Japan.

You know, I don't know that we have the stick-to-it-iveness; I don't know if it is our other foreign policy agenda. I can't believe that they have got better negotiators than we have, and I know the two folks before us and I know the people that support them.

How do we get from where we have been for over a decade to where we need to be?

The rice thing is very nice, but frankly, it is a diversion in my opinion of what really needs to happen here. We need to have a mirror image and access to markets.

Ms. BARSHEFSKY. If I may, Mr. Chairman, let me start out first.

The examples that you give are important examples with respect to the way in which the Japanese economy operates. If we look at the Japanese economy on a broader scale, we can see that the examples that you give are part of a larger and more serious phenomenon. The central challenge in our relationship with Japan is that the Japanese market does not operate the way markets do in Europe or in the Americas. And there are really three facts that I would point to.

First, that Japan imports few of the types of goods that it exports, and this is in sharp contrast to the practice of the industrialized nations.

Second, Japan imports a disproportionately small share of manufactured goods, so that as a percent of GDP, the United States imports about 6.5 percent of GDP in manufactured goods. For Europe, it is 7.4 percent. For Japan, it is about 3 percent and falling.

And third, if you look at the global stock of inward direct investment, about 38.5 percent of that global stock is in Europe; 28 percent is in the United States; 0.7 percent is in Japan. That is an extremely serious number, because we know that trade follows investment, and where investment is prohibited or severely limited, trade does not flow.

So the central problem we face with Japan is in a rectification of what is obviously a severe imbalance between the way in which the Japanese economy operates with respect to trade and the way in which the economies of the other industrialized nations, and I am talking here about the OECD countries, react to the same kinds of trade conditions. The way in which this administration has decided to pursue a rectification of these imbalances is by having a framework that I think is best characterized by four features.

First of all, that economics is elevated as the center of the relationship. There has not been an administration before this one willing to do that.

Second of all, a framework that is anchored in biannual meetings of the heads of state that keeps the pressure on us, as it keeps the

pressure on Japan, to achieve concrete results that the heads of state can approve of.

Third, that the framework is anchored in a timetable that sets strict deadlines within which measures must be put into place.

And fourth, that the framework is results oriented. That is that when the Japanese have agreed to the application of objective criteria, both qualitative and quantitative, to assess the results of the agreements that are put into place.

This administration has chosen to attempt to rectify the economic asymmetries that characterize the bilateral relationship, and indeed the global relationship, through the framework in these four particulars. I would make one other note.

This administration is on record as supporting Super 301. The only issue is the vehicle for that, not the support of Super 301. The administration furthermore with respect to the framework has expressly reserved all rights with respect to U.S. statutes, rules, regulations and laws and their application to Japan to the extent framework procedures do not produce the kinds of results we believe they should produce. So this administration is committed and focused on doing its best to resolve the bilateral imbalance that exists.

Mr. LORD. Could I—

Mr. GEJDENSON. Go right ahead.

Mr. LORD. I wanted to add, if I could do that, and address sort of the pattern that you sketched over the last dozen years ago. Without emphasizing the last premise that you put forward, I would agree with your general analysis. During the cold war when we were competing with the Soviet Union on a global basis, what would happen to our relationship with Japan is that economic ministers in the U.S. Government would come and say look, we have this terrible trade problem or investment problem with Japan. The Secretary of State, Secretary of Defense, JCS Chairman and others would say please get lost, we have a cold war here, we will worry about those later.

This is a slight oversimplification. But the point is that I think for many years economics did take second place to our security and political interests. And I am not disputing whether that was wise or not. I just think it is an objective reality, and it didn't get the attention it deserved. What is different now, without commenting on past administrations, with the cold war over—and the security ties are equally important, I want to make that very clear—but obviously economics has become extremely important. As Ms. Barshefsky has pointed out, economics is now elevated to the level of security and political issues.

For example, Secretary Christopher in his first meeting with his counterpart in April in Tokyo spent three quarters of the meeting on trade and economic issues. That is unusual for a Secretary of State.

And he has continued to do that in other meetings, as well as the other important aspects of our relationship. We are dwelling on economics, because that is where we need fixing.

This is not to forget the very important other dimensions of our relationship, but we might as well talk about where the problems are without forgetting the other two aspects of the relationship. So

I think there are two elements that make me optimistic that we can over many years solve this problem, but I agree with you that the timetable for early progress is much shorter than that, and indeed we have to show some progress by January.

One is the policy framework that Deputy Secretary Barshefsky has just outlined, and I want to repeat that, but secondly is the fact that this is compatible with the direction that Japan's leaders say it wishes to go in. This is different. And if they can translate deeds from those words, we will be on the same path.

The only question is how fast we can do it. The other element here, and it is related to the Japanese rhetoric, is that this is when the Japanese consumer is beginning to demand. The quality of life of Japanese citizens has not matched the quality of its exports and production. And when that starts happening, I think Japan will be better off and the United States will be better off and our bilateral relationship will be better off.

Mr. GEJDENSON. I had 20 consumer groups from Japan come to see me and asked us to continue pressing to open up their markets for those very same reasons. I agree with what you say and I have great confidence in both of you and the folks in your organizations. I just say, the history here is a very tough one.

Take my district, for instance, I can go town-by-town and find places where we have had problems with Japanese trade policy. In Montreal, a company that makes tachometers for after-market addition to Japanese boat engines was basically told by the main folks for the Japanese company, we have been told to use a Japanese after-market tachometer, even though it is more expensive and yours met all of our standards and tests.

What I am saying, the public in this country is going to be much tougher. They are not looking for a fair fight in this one. They think we deserve some advantages after all these years, and it is going to be a very tough job because of all of the areas where we are dealing on trade. Japan, I think, has the greatest focus, because it is the most important in many ways, and it is also a bad example for the rest of the world.

I think the EC sits back and says, well, look what Japan is getting away with with the Americans, maybe that is how we ought to set our policy. I think this committee wants to help you; I think we are supportive of what you are doing and we want to make sure that you feel enough pressure on the back side to know that you have friends back here applauding what you are doing. Thank you very much.

Mr. ACKERMAN. Anybody care to respond?

Mr. LORD. I think we responded earlier.

Mr. ACKERMAN. Mr. Roth.

Mr. ROTH. Thank you, Mr. Chairman.

Secretary Lord, I read in our American papers that the Japanese permanent bureaucracy has really dug in and it is difficult to deal with and is resisting any concessions to the United States. Even the new Prime Minister, as I interpret the articles in our papers, is having a difficult time with the permanent bureaucracy. What is your assessment of the ability of this Hosokawa government to overcome this bureaucratic resistance?

Mr. LORD. Well, I would like my colleague to comment on this as well. I think the quick assessment is it is too early to tell.

This government has only been in power for several weeks. As I said earlier and my colleague has said, the words are correct and we appreciate very much the directions that Prime Minister Hosokawa has taken. He has in mind, as well, political reforms that could help strengthen the political direction of their policies against a bureaucracy which often is entrenched, as it is in many other countries.

So I think the only honest answer is, we don't know yet whether this problem will be overcome, but we have to maintain a sense of optimism because of the urgent need to make progress. Let's leave it at that for now.

Ms. BARSHEFSKY. If I may, Congressman Roth, I agree with Ambassador Lord's statement. I think that it is too early to tell, but I will say this, that political direction was very important to the achieving of the framework itself, and we believe political direction from the Prime Minister, from the MITI Minister, from the Foreign Affairs Minister will be equally important, if not more important, in achieving concrete results in the form of negotiated agreements.

So I think it is early to tell precisely how the bureaucracy will react, but it is clear to us that political leadership and political direction will play an extremely important role.

Mr. ROTH. But even if we get the political agreement, if it isn't followed through with the bureaucracy, it is not going to mean much.

Ms. BARSHEFSKY. I think, Congressman, that if we have political-level agreement, the bureaucracies will do what they do consistent with that political-level direction. It is true that in past agreements the Japanese Government has had a tendency to live up to the letter, but not the spirit, of those agreements, and that is obviously something that we are going to have to watch closely, and a phenomenon toward which objective indicators will be directed. But we do believe that Japan will act in good faith once political-level direction is given.

Mr. ROTH. The thing that I am concerned about, you know last week, as you well know, the President moved to decontrol computers and supercomputers and the like. But even if we get an agreement with Japan, if it doesn't follow through with the bureaucracy, we still get nowhere.

Ms. BARSHEFSKY. Well, if I may say, the decontrol of computers and supercomputers is directed more toward Asian markets and particularly China than it is as much toward Japan. The computer and supercomputer agreements that we have with Japan and which have been in place in the case of supercomputers since 1990, and in the case of computers since April of 1992, refer to computers and supercomputers that had never been controlled with respect to our bilateral relationship with Japan.

The problem in the supercomputer agreement has been something to which I referred before, and that is Japanese compliance perhaps with the letter of the agreement, but certainly not with its spirit, such that U.S. penetration of the Japanese supercomputer market has actually declined since the agreement was put into

place, leaving us at about 10 percent of Japan's market, while in Europe, the United States holds 85 percent of the market.

In Japan the United States has never won a head-to-head supercomputer competition with a Japanese company, and in Europe the United States routinely wins competitions with Japanese companies for supercomputer sales. So the problem is not one of control in terms of export controls—

Mr. ROTH. But they have to sign off on it.

Ms. BARSHEFSKY. But in terms of compliance with the agreement, that has been negotiated.

Mr. ROTH. Japan—Secretary Lord, in your statement you mentioned Japan's stagnant domestic economy, and Japan is in a recession. What can the government do about that, and why haven't they been more successful? What is your prediction?

I would like to add one more question to that, and that is to what extent is their economy a mirror for us? In other words, if their economy doesn't pick up, what does that mean to us and also Europe? I mean before we had a domestic economy, but now I mean this is a truly international economy, and to what extent that was going on in Europe and in Japan really a mirror for us, in your case Japan?

Mr. LORD. Let me give a preliminary answer and then because my colleague has much more stellar economic credentials than I do, I would welcome her adding to my answer. In terms of what the Japanese Government can do, obviously stimulus packages are one way to go.

I think many in Japan felt that this latest stimulus package was inadequate, as well as many in this country, and so I suspect they will need more stimulus for the economy. Again, many outside observers and some in Japan are calling for a tax cut.

The question is, if you cut taxes of one sort, will you reimpose taxes in some other areas which might wipe out the benefit in terms of the consumer and in terms of imports from other countries. So it isn't going to be just whether there is a tax cut, but whether there is compensation elsewhere to erase its potential impact at least as far as we are concerned. So those are some of the areas that they could try to regain growth.

You are absolutely right. It is an international economy, and sluggish growth in Japan means even less exports for us, or at least potentially it means that. It has a drag on the entire world economy, given the huge share that Japan has of trade and production around the world. So what happens in the Japanese economy is very important.

There are some superficial observers who sort of take some perverse pleasure in Japan having economic problems. We certainly don't, not only because they are a friend, but because a robust economy in Japan is important for our own economy.

Mr. ROTH. Mr. Secretary, I just want to analyze your answer. You had mentioned a stimulus package. Well, they have had three stimulus packages in Japan and now nothing seems to work.

Mr. LORD. Well, I am sure things were better because of them than they would have been without them, but I think most would agree in Japan, and certainly in this country as well that it is not just the size, but it is the composition of these packages that is im-

portant, and I think on both counts they have been inadequate, but again, my colleague might wish to comment.

Mr. ROTH. I just have one further question, Mr. Secretary. Before the Chairman had mentioned one administration talking to you, and I see that we have people of the same political philosophy, I don't mean to be polemical here and I know you don't either. But when you talk about tax cuts, what are they talking about now in Japan, adapting Reaganomics to get the economy moving over there?

Mr. LORD. Well, I don't know whether I would phrase it quite that way, but the government itself has been talking about tax cuts. The Japanese consumer does not live well, and the economy is sluggish, so I think there is a lot of reasons to point toward a tax cut. Now, the Ministry of Finance, like any other ministry of finance, doesn't like the idea.

Mr. ROTH. Let me ask you this: You are a man that is very conversant with what is going on over there and a person that is, an urbane person that knows what is going on with economics around the world. Do you think a tax cut would help them, I guess is the question?

Mr. LORD. Well, I think it is a little presumptuous of me, particularly with my meager economic background, to be telling Japan how to run its own business, so I am doing this based on what I have seen experts both in Japan and elsewhere say, and my own understanding of their present situation. So I will stand by what I said. I think a tax cut would make sense for Japan and it would certainly probably help us in terms of our trade imbalance.

Ms. BARSHEFSKY. Congressman, if I may add to Mr. Lord's statements, the United States and Japan together account for 40 percent of world GNP; Japan is the second largest economy in the world. If Japan has slow growth, if Japan has market access barriers, if Japan does not participate in the world market the way other industrialized nations participate in the world market by way of imports and exports, then Japan's economy poses significant problems for the world economy, and that is precisely the situation that we are in now.

I am sorry, please.

Mr. ROTH. I didn't mean to interrupt, but I am looking for some guideposts. So if I am watching the news in the evening and they say this is happening in Japan, or if I am sitting in the cloakroom over here and some of the Congressmen say to me, well, you are on this committee, what is going to happen in Japan.

Give me some guideposts I can look to to see if their economy is coming back. What would you recommend? Would you recommend a tax cut?

Ms. BARSHEFSKY. If I may defer to Secretary Bentsen, because it is the Treasury Department that has analyzed the three stimulus packages that Japan has put into place, and which is the administration spokesman with respect to Japanese macroeconomic policy. The Treasury Department, of course, has looked at the three stimulus packages, the most recent of which was on September 16, but there was an April stimulus package and an August stimulus package.

Their conclusion is that these stimulus packages, while large in number, are much smaller in effect, and that indeed, the size of the number itself tends to overstate the degree of new fiscal stimulus put into the marketplace.

And if I may quote Secretary Bentsen on this, and I don't feel that I am competent to go beyond what he has said on this issue, and that is that appropriate monetary policy should be put into place, tax reform policies, and the United States is looking carefully at Japan's fiscal 1994 budget with respect to supplemental appropriations and the like. And it is felt, at least by the Treasury Department, that these three elements will be important to seeing the Japanese economy revive.

I would provide more detail on that if I could, but I don't feel that I am competent, and of course macroeconomic policy is outside the scope of USTR's jurisdiction, but these are the views of the Treasury Department as reflected in statements made by Secretary Bentsen.

Mr. ROTH. Well, I thank you very much, and I have taken more than my share of time, but I am very much interested in your answers. And you know, I have an export conference every year and I just finished my export conference and there is something surprising going on in our economy today.

You know, in the State of Wisconsin that I represent, we have almost full employment. And yet when I talk to these leading entrepreneurs, we have 1,000 of them at this conference, there is so much pessimism. I am just wondering if there isn't like a virus going around this entire planet of pessimism and it doesn't make much difference what kind of stimulus packages you have. I hope I am not being too cynical, but I am trying to analyze this and I can't come up with a better answer. What do you think?

Mr. LORD. Well, first of all, your analysis may very well be correct, that there is a psychological problem here. My impression, again it is somewhat anecdotal, is that American businesses have become much leaner and meaner and have to be ready to take advantage of export opportunities and that is why we are so anxious to make progress with Japan.

This is a major market we don't have sufficient access to, and we think more than ever, we can compete. The message we have been carrying to our Japanese friends is that this administration is finally taking the domestic actions that Japan, G-7 and in general the world have asked us to take. Getting the deficit down and all the other aspects that we have mentioned in our statements. So we are doing our share, we can probably do more, but now it is time for Japan to take some of the tough decisions and for that matter, Europe. I wouldn't let Europe off the hook in the global economy either.

Mr. ROTH. You know, the thing that impresses me is that when I go around to different restaurants, I go back home in the precincts and so on and run across so many people that have lost their jobs and so on because of this restructuring, and I am just wondering, rather than having all of these tax increases that we have had in our country, maybe what we should do is have less regulations and less tax so we can let the entrepreneurs grow because this is a new economy we are going into.

Mr. LORD. Deregulation is something emphasized in Prime Minister Hosokawa's statements and we hope he is able to follow through on that.

Ms. BARSHEFSKY. The Hosokawa regime has proposed a variety of specific regulatory measures as a means of lessening the regulatory burden and as a means of stimulating competition.

Mr. ROTH. Thank you very much.

Mr. ACKERMAN. Mr. Fingerhut.

Mr. FINGERHUT. Thank you, Mr. Chairman. I am sure that Mr. Roth didn't mean to be polemical in suggesting that the Japanese adopt Reaganomics. Certainly we are not recommending to increase their national debt and turn to long-term structural problems that we will have to get out of.

Mr. ROTH. If the gentleman will yield and forgive me, I know I wasn't trying to be polemical, but I am speaking in all frankness and candor when I say hey, our taxes in this country may well be too high and be may well have too many regulations impeding our entrepreneurs. I don't think that is polemical, I think I am just making an accurate assessment of the situation.

Mr. FINGERHUT. I appreciate the gentleman's response.

Mr. ACKERMAN. We will restore your full time.

Mr. FINGERHUT. Thank you. We have been generous with time in this hearing. I welcome the witnesses again to the subcommittee.

I commend the many comments that both chairmen have made about the importance of this subject and the broader subject of trade which this administration has been actively involved in. But certainly the Japanese trade situation maintains a level of significance, both because of the size of the economy, Ambassador Barshefsky, as you correctly noted, and because of the symbolic importance that the American people attach to what has been viewed certainly in this body as a series of unfair trade situations that have evolved over the years.

And I can only paraphrase the Vice President who says that, if I read of any government efforts, we are moving toward results-oriented government and outcome-based government, that that is of course how we will judge the successes of this latest trade initiative with the Japanese. I have to confess—and I guess that my first question would be to allow either of you to respond to some cynicism—but the last time you were here and we talked about the agreements that have been reached between the administration and the Japanese, we asked ourselves, how will we judge success?

And, of course, the news reports of the last few weeks have not been one to encourage us to believe that we are moving toward success. Should we be—should I be as pessimistic as I am about where we are going? And the next time you are here, are we going to be ringing our hands about the progress we haven't made? What is your sense of the direction?

Ms. BARSHEFSKY. I don't think there is any cause for pessimism. I think there is cause for realism. Realism suggests that our negotiations with Japan will be difficult. Realism suggests that Japan will want to assume a minimalist posture with respect to market access initiatives.

Realism suggests that the United States will have to keep at this for some time to get us where we believe we ought to be, which is to say a Japan that is as open and receptive to foreign goods and services as the rest of the industrialized world.

Realism to me also suggests that we have to look at our process with Japan under the framework as a continuing process, one to which the administration at the highest levels will devote substantial time and attention, one to which Congress at all levels must devote substantial time and attention if we are to make the requisite progress.

So I am not at all pessimistic, I am realistic about the process that we are going to be embarking upon with Japan. I have no reason to believe, though, that we can't reach agreements, which at the end of the day, will produce results.

Mr. LORD. If I could add to that: I, of course, share the realistic emphasis of Deputy Secretary Barshefsky. If one looks at the rhetoric alone, one could be optimistic in terms of the general direction headed—where the Hosokawa assessment is looking to go. The question is, can it deliver fast enough, including on the economic side, to meet the agreements that we have sketched out together.

I would add one other note here: when we are talking about the need for political initiatives, as we did earlier and as Ms. Barshefsky mentioned high levels, in addition to such cabinet reviews of the framework process which will come fairly regularly, I would note a series of meetings at the highest levels between our Governments that are coming up that will hopefully give political impetus to the political framework talks.

The President will be seeing the Japanese Prime Minister in Seattle in November at the APEC leadership meeting, so that is an opportunity for our leaders to press this process forward. They will then be getting together early in 1994 under the agreement reached last spring that they would meet at least twice a year.

And then they will be getting together certainly next summer at the G-7 meeting in Milan. So we have a series of meetings at the highest levels that I think we can use mutually, and I think the Japanese intention is to do this as well, to press the bureaucrats, to come up with progress for each of these benchmarks, so this is another way that we hope to move forward.

Mr. FINGERHUT. Well, I certainly hope that you are both right. I am sure that you encounter, not just my personal skepticism, but a wall of skepticism among the American public. But if you succeed, it will be one of the significant breakthroughs and something that I think maybe could lift the general mood of skepticism that Mr. Roth referred to before.

Let me ask you a little bit more about the Hosokawa government and its domestic agenda. We have talked about the economic stimulus and other issues.

They were—they really came to power, as I understand it, in a mood of electoral reform of some kind or another, a response to the scandals that had enveloped the prior government, the governing party, but it, at least in this country, the sense of what the reforms are that they have been advocating is a rather vague—is a rather vague notion.

Could you help us understand in some more detail what specifically are the reforms that they are talking about and how those might impact the issues that we are discussing here today?

Mr. LORD. First of all, I think a key problem identified by all leading Japanese observers and politicians is the role of money in Japan's electoral process, a problem we don't have here of course in the United States.

Mr. FINGERHUT. Subject of reform has never come up around here.

Mr. LORD. Essentially you have a system where you have multiparty constituencies. That means within a certain electoral district certain members, including of the same party, would be competing for the same seats. This put a premium on raising huge amounts of money, and led to corruption and scandal, not to mention distorting the process in general.

As I understand what Prime Minister Hosokawa has in mind, and keep in mind they have a coalition and they have different ideas about this, but he has indicated he would like to have a 500 member Diet, 250 seats that would be single representation and then 250 other seats allotted proportionally among the parties according to the votes they would get. This would get at the money problem. He has other things in mind, putting a lid on corporate contributions, transparency of contributions, disclosure and so on.

So I think these are the main areas that he hopes to get at the electoral process, which he thinks in turn will make for a more responsive political system in Japan.

Mr. FINGERHUT. And is it your view or is it their view that a more responsive political system in Japan would then push a government toward a more open market, pro-consumer policy? Or do we have a concern that particularly in a recessionary period in Japan, it is easy to note the reaction of our public on international issues during recessionary periods here? Might it actually work in reverse?

Mr. LORD. Well, I think it would be a matter of huge risk to try to predict what is going on in Japan. It is very fluid right now. We are not even sure what reforms are going to be enacted how soon or what their impact would be. Having given you usual bureaucratic hedge, but as a whole I think the impact should be positive.

It seems to me when you have one party domination as you had with the LDP for many decades, they did many good things and I have great respect for many of their leaders, but the fact is that the consumer got shortchanged. It seems to me if you have at least two or three parties competing for power, particularly the centrist orientation which most of these are and they would maintain continuity and security in the foreign policy areas, which is very important, but they will have to compete for consumer votes.

The Japanese citizen is realizing that particularly in the age of communication, in comparison to other lifestyles, that it really has not had a very good quality of life compared to some other countries, and I think the politicians are going to have to respond to that. I think we are already seeing signs of it. So if you have several parties, and not just one party dominance, and if money gets out of the equation to a certain extent in the process, I think this will make for some pro-consumer trends.

Now, this should, on balance, mean more imports as Japanese people demand cheaper goods and not have the contrast in the Sony Walkmans that we heard about earlier, but I think that there may be some unpredictable ways in which a more responsive public may drive it in directions we don't like. But I think on balance it will be healthy for Japan and healthy for our bilateral relations.

Ms. BARSHEFSKY. If I may add a comment, I agree fully with Ambassador Lord's statement with respect to political reform, but I would like to distinguish economic reform or deregulation from political reform for a moment. I think we have to watch very carefully as economic reform is undertaken in Japan that those reforms don't further disadvantage foreign competitors in the Japanese market, and let me give you two examples.

INSURANCE

Insurance. The Japanese Government has talked for some time about deregulating Japan's insurance market, and indeed, Japan's insurance market is highly regulated, overregulated, and deregulation is something to be applauded. But as those deregulatory initiatives are being formulated, what we find is that among all of the areas to pick for deregulation, the one area chosen as the first target of deregulation is the only segment of the market in which foreign companies can compete.

Japan is dominated by five insurance companies, which are the five largest insurance companies in the world. What do you think happens when you deregulate the only sector in Japan in which foreign companies can compete and leave the other two sectors in Japan in which foreign companies cannot compete, not deregulated? So this is an example that we have to watch very carefully: deregulation efforts.

CONSTRUCTION MARKET

The second example I would give you is in the construction market. Of course there has been a lot written in Japan about the construction market, bid rigging allegations and so on, and some say that the construction scandals led in part to the downfall of the LDP in the last election. The United States has two construction agreements with Japan to try and open the Japanese construction market to foreign architectural design and construction companies.

Japan has proposed a possible deregulation pilot project with respect to construction on 13 particular projects. Foreigners are precluded from competing in these 13 projects, which will be the first 13 projects under a so-called deregulated or partially deregulated scheme. So as we look at economic reform as distinct from political reform, and as I said, I agree with Ambassador Lord's comment on political reform, as we look at economic reform and deregulation, we absolutely have to be vigilant to ensure that those reforms don't further disadvantage foreign competition.

Mr. FINGERHUT. I appreciate your comment, and I know I have overshot my time here, but just in brief response, what I think was the underlying premise of part of my questions to Ambassador Lord was that we know well that while I am sure we support political reform as a matter of principle the resulting policies may not reflect something that will help this trade imbalance.

If you study the history of popular movements, it is not likely that the people jump up and demand greater access to foreigners in their domestic situations. So I think we do need to watch it and I appreciate the fact, Secretary Barshefsky, that you are concerned about that issue and looking at it. I wish you all the best in your endeavors and I look forward to the next hearing where we can hear the results.

Mr. LORD. In response to your question about things getting better, given the trade imbalance in the next decade, it is hard to see it getting much worse, so I think on balance we should welcome change and I think it is the right kind of change.

Mr. FINGERHUT. Thank you.

Mr. ACKERMAN. Let me just, before we go on to Ms. Meyers, just explore a different area for a couple of moments, if we could. How would you characterize the level of Japanese concern and engagement with the North Korea issues?

Mr. LORD. Level of concern, very high; level of engagement, very high. The closest cooperation with us. We work very closely with them and the South Koreans, of course, on our strategy and on our tactics with respect to the Korean nuclear problem. They are very concerned, of course, in Japan as well about the missile problem in addition to the nuclear problem.

Mr. ACKERMAN. Is the Japanese concern over the North Korea's intentions, was that in your opinion the motivating factor between the recent allusion by the Prime Minister to a U.S.-Japan technology swap?

Mr. LORD. I think it is a very significant contributing factor; certainly, a very proximate cause.

Mr. ACKERMAN. What is our response to that, or do we have one as yet?

Mr. LORD. We are in the very early stages. We just had some preliminary exchanges on the possibility of cooperating in this area, so we have a long way to go. Clearly we would be interested in trying to help Japan see to its defense and we will work cooperatively. But there is an awful lot of details and concepts to be worked out.

Mr. ACKERMAN. Thank you.

Ms. Meyers? Well, if you feel that way about it.

Do you anticipate any policy changes, or perhaps changes in emphasis, in the new government's policies toward Russia?

Mr. LORD. So far we have seen continuity. Of course Russia itself is in a very fluid situation, although it does seem to be calming down. I think Japan has taken, under the previous government, under this government so far, a very enlightened posture toward Russia.

They have had traditional problems between those two countries. And then more recently of course territorial and other issues, and domestic opinion in Japan is very sensitive on this issue.

Despite this background, I think Japan, and I must say with our encouragement, has recognized the stakes of democracy and market reform in the former Soviet Union, in Russia; and it therefore has been willing to contribute significantly to this process. It hosted a meeting of donors in Tokyo in April. It has contributed the money itself. And it has invited President Yeltsin to go to Tokyo,

and they are working out how they would deal with some of these tough issues while he is there.

And as we meet today, despite recent events that is still on for the middle of this month. So I think Japan has even contributed aid. It has done so through multilateral arrangements, as opposed to bilateral. But it has been I think very constructive and reasonable on this issue, and I don't see any changes in the new administration, to get back to your question.

Mr. ACKERMAN. Would you characterize the relationship as consistent with the relationships of previous administrations in Japan toward Russia?

Mr. LORD. Well, certainly, as I just said, it is consistent with the Miyazawa administration, as far as I can see. It is hard to compare it to ones before that, because then you start getting back into the cold war era, it was a different, a different context under which they were operating. I think it is fair to say that both the Japanese and Russians would say that there was some historic tension on these issues. It is not an easy relationship to work out. We wish them well and encourage good relations between Russia and Japan. I think that is the objective of the Hosokawa government.

Mr. ACKERMAN. In your view, do the Japanese see any connection between the idea of some kind of future northeast Asian security forum and the need for improved relations with Russia?

Mr. LORD. Well, I think they are interested in at least a dialogue. We are not quite at the forum stage yet, and we have been encouraging it along with other regional security dialogues per the President's speech, in Seoul, Korea this summer. I think Japan would be interested not only in talking with us, but South Korea and Russia and China and North Korea once we get to a situation where it can be positively involved. Let's hope we get to that point.

So it would include its concerns with Russia and with China, for that matter, but I think the territorial issue and the specific bilateral issues, Japan would prefer to continue handling itself rather than putting it into such a forum. I think such a forum is more relevant to other regional issues in the northeast Asian section, but the Japan-Russia territorial dispute I think Japan would prefer to continue to handle bilaterally.

Mr. ACKERMAN. The Prime Minister also alluded recently to a possible relaxation on the rice, and on last Friday the government announced its intention to import 200,000 tons of rice on a one-time basis. The opening of this market may not have a large economic importance for the United States, at least in terms of balance of trade. The broader implications of this seems to be rather encouraging and I wonder if you would like to comment on that and whether or not in your opinion the Japanese are going to sell their imported rice at its market value, and do you think, or does the government intend to price it at normal subsidy levels of about five times the world price?

Ms. BARSHEFSKY. I will respond to that. The Japanese have announced a one-time purchase of about 200,000 tons of rice because of a rice shortfall in Japan. There is some speculation that they would have to import next year as well because of the effects of that rice shortfall. We don't have any information on the pricing

policies that Japan will employ with respect to rice. And—but let me make two general comments.

Mr. ACKERMAN. Let me just—you are saying that they are doing this because they have to, because of a shortfall rather than as an indication of a change in trade policy?

Ms. BARSHEFSKY. They have announced this as a one-time only because of shortfall policy, not as a policy designed to—

Mr. ACKERMAN. Is that a face-saving announcement, or is that real?

Ms. BARSHEFSKY. I think we take it at face value right now, but our view is that Japan is not likely to let the GATT Round collapse because of protecting its rice market. The U.S. position in the round, as you know, the tariffication without exception and with respect to Japan's rice ban, Korea's rice ban and other countries with similar bans, we have indicated that those bans must be put into tariff form with tariffs then to come down. The U.S. position on this is unequivocal, and it is our view that Japan will not let the round fail for protection of its rice farmers.

Mr. ACKERMAN. The U.S. share of the Japanese semiconductor market has dropped yet again to 19.2 percent in the second quarter. How does the administration view this development?

Ms. BARSHEFSKY. The administration views this development very seriously. As you know, in the fourth quarter of 1992, import penetration was about 20.2 percent, which comported with the semiconductor agreement's goals.

Since that time, penetration has dropped first to 19.6 percent and now 19.2 percent. Ambassador Kantor has stated that the United States expects to see a 20 percent average import penetration level in semiconductors for calendar year 1993 in line with the agreement, and we are having difficulty right now seeing how Japan is going to accomplish that, given a continuing diminution in foreign share. So this is an issue we are watching very closely.

There will be consultations toward the end of October on this. The United States will come to Japan with specific suggestions on how Japanese purchases of foreign semiconductors can increase, particularly through use in automotive and telecommunications applications.

Mr. ACKERMAN. Well, thank you, and let me, on behalf of both subcommittees, thank each of you for your enlightened participation in our hearing. We have covered a broad spectrum of areas, and I think that the members are fairly satisfied that we have very capable quality people in our administration, rather conversant with this issue and we thank you for your continued cooperation.

Ms. BARSHEFSKY. Thank you, Mr. Chairman.

Mr. LORD. Thank you, Mr. Chairman.

Mr. ACKERMAN. The hearing stands adjourned.

[Whereupon, at 3:06 p.m., the committee was adjourned.]

APPENDIX

Opening Statement of Rep. Sam Gejdenson
Chairman, Subcommittee on Economic Policy, Trade and Environment
U.S.-Japan Policy and the New Japanese Government
October 5, 1993

The next four months are a critical time in U.S.-Japan relations. Under the new framework for trade negotiations with Japan, deals with Japan on government procurement, insurance and automobiles must be hammered out by January.

The Clinton Administration has received a commitment from Japan that this latest round of trade talks will be different from the past. The framework calls upon Japan to agree to specific benchmarks for measuring Japan's progress in opening-up its market. If the Japanese refuse to agree to reasonable benchmarks, the Administration indicated at our last hearing that it will unilaterally apply benchmarks to the deals.

It's about time that we have a President who is willing to get tough on trade with Japan. I represent a state with seven percent unemployment. Thousands of Connecticut citizens are employed in the insurance industry, but thousands more could find insurance jobs if Japan would open-up its lucrative insurance market. U.S. insurance firms have been unable to gain a foothold in Japan due to discriminatory regulations and interlocking corporate relationships. For Connecticut's economic health, Japan must allow our insurance companies to compete on an equal footing.

Since our last hearing on Japan, we have a new Japanese prime minister with a host of new Japanese cabinet officials. I hope that Japan's new political leadership, the first since 1955 to be drawn from political parties other than the L.D.P., will have a new attitude on trade relations with the U.S.

I am not overly optimistic, however. The U.S. is still facing the same set of Japanese trade negotiators who have successfully fended off results-oriented trade deals for years. Furthermore, the new prime minister's coalition includes seven parties, all with differing views on trade policy.

The resolve of the Clinton Administration to negotiate verifiable, results-oriented agreements must remain strong. American insurance companies must have complete access to the Japanese market. U.S. auto parts should sell as well in Japan as they sell elsewhere. And American firms must be able to sell their top quality goods and services to the Japanese government.

If the framework negotiations do not yield results by January, Congress should move quickly to resurrect Super 301, and target the full force of U.S. trade law on Japan.

I commend Chairman Ackerman for calling today's hearing, and I look forward to the testimony of our distinguished witnesses.

**U.S. POLICY ON JAPAN AND
THE NEW JAPANESE GOVERNMENT**

Opening Statement at House Foreign Affairs Committee Hearing
Assistant Secretary Winston Lord
October 5, 1993

Mr. Chairman, Members of the Committee:

I am pleased to have this opportunity to share views with you on U.S. policy on Japan and the new Japanese Government.

The elections in Japan on July 18 showed a strong desire for change following a long series of political scandals. The Liberal Democratic Party (LDP), in power in Japan for 38 years, lost its majority in the Lower House of the Diet. On August 9 Morihiro Hosokawa became the first non-LDP Prime Minister in Japan since the 1950's. The new Prime Minister heads a "reform coalition" made up of seven parties, representing a wide range of political views but in seeming agreement on the need for reform of Japan's political system.

The mood of the country is running strongly in favor of "change" and "reform" -- political reform especially, but also reform of the economic and social structure. Prime Minister Hosokawa so far personifies the effort to bring about change in Japanese society. In his first weeks in office he has garnered a 70 percent support rating, an astonishing reversal in the Japanese public's opinion of its political leadership. If he is able to take advantage of the mood for change, the result could be a significant shift in Japanese political and economic practices.

Our first meetings with top officials of the Hosokawa administration have been excellent. President Clinton met with the new Prime Minister in New York on September 27, and had a very useful and cordial exchange of views with him. Secretary Christopher has had two meetings with Foreign Minister Hata and Secretary Aspin has met with Defense Agency Director General Nakanishi. Secretary Espy will be in Tokyo next week for meetings with top Japanese officials. Congressional delegations have had productive meetings with Japan's new leadership in the past several weeks. The selection of former Vice President Mondale as Ambassador to Tokyo was very well received by the Japanese, just as it was here at home.

As we have stated consistently there are three pillars to our relationship. The economic pillar is under stress and needs steadyng so as not to affect our overall relationship. Therefore, the President and the Secretary have made clear that the economic aspects of our ties with Japan need urgent attention. The Japanese global current account surplus, combined with Japan's stagnant domestic economy, presents the most serious potential problem in our bilateral relationship. Japan and the United States maintain one of the most important economic relationships in the world. We must work to right the economic imbalances that are the source of the contentiousness that has entered our relations. Our economic ties must be balanced and mutually beneficial, and firmly rooted in the shared interest and responsibility of the U.S. and Japan to promote global growth, open markets, and a vital world trading system.

It is essential that the Japanese recognize that just as we are making necessary and long delayed adjustments in the U.S. economy -- bringing the budget deficit under control, improving our competitiveness, and implementing comprehensive health care reforms -- Japan must also implement changes in its economy, boosting domestic demand and adjusting its regulatory and business practices to allow full access to Japanese markets. Additionally, it is crucial that Japan play an active role in bringing the GATT Uruguay Round to a successful conclusion. We therefore look to Japan to undertake forward-looking initiatives on the Uruguay Round talks, which must be completed by December 15.

Our US-Japan Framework for Economic Partnership, announced in Tokyo in July, is intended to address the economic imbalances in our relationship. Under the Framework, Japan has committed to pursue policies to bring about a "highly significant decrease" in its current account surplus, both by taking macroeconomic steps to promote domestic demand-led growth and by increasing market access for foreign goods. The market access issues will be addressed through five different "baskets," including Government Procurement, Autos/Auto Parts, Regulatory Reform, Economic Harmonization (including issues of increasing foreign business presence in Japan, foreign access to Japanese technology and buyer-supplier networks and increased intellectual property protection) and Implementation of Existing Agreements. The Framework Agreement also contains a "Common Agenda for Cooperation in Global Perspective," which contains 15 programs for joint efforts on such issues as the environment, AIDS and population growth.

The "kick-off" meetings for most Framework issues were held in Hawaii September 16-23. Treasury began talks on the fifth basket, Deregulation, in Washington last week. A "kick-off" meeting of the Common Agenda for Cooperation portion of the Economic Framework was held on September 9. The talks have been organizational in nature and have laid out the basic elements of our proposals in these areas. At the next round of meetings scheduled for mid-October we hope to propose draft agreements in several sectors. We will press for early progress -- particularly in the high priority areas of autos/auto parts, government procurement and insurance, for which the Framework calls for bilateral agreements by early 1994. Prime Minister Hosokawa and President Clinton are expected to meet to review Framework progress in January or February. Deputy USTR Ambassador Barshefsky will also want to share her first hand observations on this process.

We have a timetable in place. We anticipate and expect market opening results because it is in both of our interests to have them. All members of the Administration have made it clear we look for concrete steps, and we will monitor negotiations closely to ensure that progress is being made.

It is early to determine whether the momentum of Japan's domestic reform outlined above will work to stimulate tangible progress on our longstanding economic differences. If so, that will be to the benefit of the Japanese consumer as well as the U.S. exporter. Both the President and Secretary Christopher have personally urged Prime Minister Hosokawa to undertake forward-looking economic and trade initiatives in coming months to defuse trade tensions. Prime Minister Hosokawa has promised President Clinton that he will "redouble" his efforts to make progress under the Economic Framework Agreement announced in July. Consistent with this pledge, in his maiden policy speech to the Diet on August 23, Hosokawa promised to try to cut Japan's current account surplus significantly through expansion of domestic demand, improved market access for imports, and deregulation. We certainly want to work positively with a government pledging a number of constructive economic steps.

The President and the Secretary have also underscored the great value we attach to the security, political and global dimensions of our partnership with Japan. These aspects of our relationship are in sound condition. The Japanese have consistently been among our most important partners and strongest supporters in the international arena. The change in government in Japan has not altered that. We are in fundamental agreement with the Hosokawa government on foreign and security policy issues. The new government is adhering closely to Japan's long-standing basic foreign policy principles, especially Japan's commitment to its security alliance with the United States.

Our alliance with Japan is a mainstay of our international security posture. Japan is our most important ally in the world's most dynamic economic region, serving as the host nation for key U.S. military installations and providing billions of dollars each year to support the roughly 47,000 American troops based there. Prime Minister Hosokawa has made it clear that this alliance will continue to be the cornerstone of Japan's foreign policy.

We consult closely with Japan, and value Japan's support, on a wide range of political and security issues, including Russia, the Korean Peninsula, Cambodia, Vietnam, China, and the Middle East. Japan is a key partner in our efforts to develop a regional security dialogue in East Asia, both through the ASEAN Post Ministerial Conference process and also in North East Asia. Japan has played an important role in developing APEC, the Asia Pacific Economic Cooperation forum, and will assume the APEC chairmanship in late 1994. The Hosokawa Government has announced that it will support an indefinite extension of the Nuclear Non-proliferation Treaty (NPT). Last week Japan pledged \$200 million in financial support for the peace process in the West Bank and Gaza.

We are increasingly looking to the Japanese to demonstrate leadership on the world stage commensurate with Japan's status as an economic superpower. Prime Minister Hosokawa and key members of his cabinet have stated their recognition of Japan's international responsibilities and their intention to have Japan play a prominent role in addressing the problems facing the international community.

Whether the Hosokawa government can meet growing expectations at home and abroad, by turning its initiatives into real policies, remains to be seen. But, as I stated in my confirmation hearings -- and I believe this now more than ever -- our fortunes in Asia, indeed the world, will hinge on developing comprehensive, durable ties with Japan. This bilateral relationship remains my highest priority.

Mr. Chairman, this Administration is determined to forge a more equitable, positive partnership with Japan as we head toward the next century. To this end we offer our Japanese friends both reassurance about our intentions and a sense of urgency about festering frictions. We will maintain a substantial military presence in Asia, cooperate intimately with Japan on regional and global issues, and support its access to a permanent seat in the United Nations Security Council.

In return, equity and reality require more vigorous Japanese performance on economic issues and international responsibilities. What is good for our bilateral relations is good for the Japanese citizen. What is called for on the world stage serves Japan's national interest.

America will listen more, lecture less. In turn, Japan should step forward, not in response to American entreaties or pressure, but in a spirit of enlightened self-interest and mutual benefit.

As we strive to strengthen our relations with our most important partner, we will work closely with the Congress. Today's hearing is an important step in that process.

Thank you.

Status of the U.S. - Japan Economic Framework
Testimony to the House Committee on Foreign Affairs
Subcommittee on Asia and the Pacific and Economic Policy and
Trade
Ambassador Charlene Barshefsky
October 5, 1993

I appreciate the opportunity to appear before the subcommittees today to discuss the status of negotiations under the U.S. - Japan Economic Framework, and our trade relations with Japan in general. The timing of this hearing is particularly appropriate in that we have just initiated the first set of negotiations under the Framework. I anticipate intense bilateral discussions through the remainder of this year leading up to a meeting between the President and Prime Minister Hosokawa in early 1994 to complete the first set of agreements.

As called for under the Framework, we are committed to reaching agreement in the areas of government procurement, autos and auto parts, and insurance by early 1994, and agreement in all other designated areas by July.

Over the past several weeks, our negotiators kicked off the five baskets under the Framework -- government procurement, other major sectors, (initially autos and auto parts), regulatory reform and competitiveness, economic harmonization, and implementation of existing arrangements and measures. In these first meetings, we delineated our position, particularly on the high priority areas noted above.

It is still too early to report to you on progress. Over the next several weeks, we will present the Japanese Government with specific proposals in many areas.

Let me briefly review the Framework under which we are working. I have already listed the five baskets. Unlike the past when U.S. negotiators focussed on either structural or sectoral issues, we are approaching each problem area at the intersection of structural and sectoral concerns. This negotiation is results-oriented -- process and procedural change is not enough unless it leads to concrete change in the marketplace. We will be using objective indicators, both quantitative and qualitative, to measure these results, as the Framework specifies, tangible progress towards market access and sales must be made. As I have already outlined, we have a firm timetable for reaching agreements over the coming year. Once these agreements are in place, we will begin immediately to assess their impact. Finally, the Framework includes macroeconomic commitments. Over time, we expect Japan's current account surplus to decline and to see imports of manufactured goods become more in line with the

level in most other OECD countries. Japan is committed to pursue objectives promoting sustained demand-led growth and increased market access for competitive foreign goods leading to a highly significant decrease in its current account surplus over the medium term.

We have a broad, complex, and intertwined bilateral relationship with Japan. The health of this relationship has a huge impact on global prosperity and security. Today, our ability to trade with Japan and to resolve the economic asymmetries that exist have assumed an unprecedented importance in the maintenance and growth of the relationship. Continued barriers in access to the Japanese market for competitive U.S. and foreign goods and services stymie American and global economic recovery and growth. As President Clinton has pointed out, such practices hurt both the Japanese people and the global economy.

We are cognizant of the fact that there is a new government in Japan. We believe that implementation of the Framework Agreement, on the timetable laid out within the Agreement, is fully compatible with the goals of the Hosokawa Administration. We have noted and welcome repeated statements by members of the Hosokawa cabinet that lend support to the need for real change in Japan. In particular, we welcome the Prime Minister's commitment to redouble his efforts under the Framework. We look forward to working with the Hosokawa Government to produce the tangible results we need. Implementation of the Framework would, I believe, assist the new Government in achieving the changes they seek.

Let me turn to two specific "baskets" under the Framework -- government procurement and compliance. The government procurement "basket" warrants special attention, for it symbolizes in many respects the causes of our frustration with past efforts to address barriers to the Japanese market. We look to Japan's compliance with the principles laid down under the Framework, to address this area, at last, in a definitive manner.

Since the late 1970's, U.S. - Japan bilateral trade relations have been plagued with serious and continuing disputes concerning Japanese Government procurement practices. This has resulted in the negotiation of numerous bilateral agreements on government procurement between the United States and Japan, agreements that, although negotiated bilaterally, applied to all countries in their efforts to sell to the Japanese Government. I count eleven such sectoral government procurement agreements, including:

- five covering Nippon Telephone and Telegraph (NTT) procurement practices (an original agreement in 1980, that has been renewed four times)

- two supercomputer agreements (1987, 1990)
- two construction agreements (1988, 1991)
- a satellite agreement (1990)
- a computer agreement (1992).

In each case, the Japanese Government committed to introduce new procedures that would provide greater transparency and non-discrimination in Japan's government procurement regime. Typically, as particular problems were addressed in a specific agreement, others subsequently arose in the given sector. Despite the removal of many procedural obstacles, with the exception of the communications satellite area, we have not seen significantly increased access to the Japanese Government market for foreign goods and services which the agreements had anticipated.

The numbers speak for themselves:

--In computers, where U.S. firms are highly competitive internationally, foreign computer manufacturers, at the time of the 1992 agreement, supplied less than one percent of the central Japanese Government mainframe market, despite having 41 percent of the private market in Japan. We do not yet have data to ascertain whether this disparity has been reduced.

--In supercomputers, where U.S. firms are undisputed world leaders, U.S. firms have never won a head-to-head competition with Japanese firms for a government procurement, despite regular wins against Japanese machines in the EC market, and a significant showing in the Japanese private sector market. Although American supercomputers have 84 percent of the installed base in the government supercomputer market in Europe, they represent barely ten percent in Japan.

--The Japanese public construction market has remained shut against foreign penetration, even though U.S. firms have captured over 45 percent of the international construction and design market compared to just 7.2 percent for Japanese firms.

--Finally, despite our long series of telecommunications agreements spanning nearly a decade and a half and the clear global strength of U.S. firms in this area, foreign penetration of the Japanese telecommunications procurement market remains minimal. The U.S. share of NTT's total procurement has never exceeded seven percent. Government agencies buy little from foreigners. Overall, the average foreign share of the private and public telecommunications market in the industrialized world other than Japan is 25 percent. Yet the foreign share of the same market in Japan is only five percent. The lack of U.S.

penetration into the radio telecommunications market is a matter of especially grave concern.

Our expectations for the achievement of tangible results under the government procurement basket of the Framework are captured in the Framework agreement. In the sectors cited in this basket -- telecommunications, medical technology, computers, supercomputers, and satellites -- U.S. firms are unquestionably competitive world leaders. This has been borne out time and again by the substantial market share they enjoy in trade with other developed countries. Moreover, the ability to implement the Framework in this area lies solely within the direct responsibility of the Japanese Government -- the government controls the size and growth of the market, controls the products to be procured, sets the specifications, terms and conditions for the procurement, decides the timing of the procurement, chooses the winning tender, and controls follow-on procurement.

The government procurement basket is thus an important test of Japan's intention to implement the Framework. The markets concerned are well defined; our products in those sectors are established world class competitors; and the Japanese Government is the sole accountable actor in making or breaking the commitments undertaken in the Framework.

The other basket I would like to focus on today is the critical implementation basket, which encompasses the existing trade agreements with Japan. It includes over two dozen such agreements, among which are agreements on semiconductors, paper, wood products, glass, legal services, and the ongoing efforts to address the medical and pharmaceuticals trade under MOSS. I should add that we are continuing to deal with other agricultural agreements in our U.S. - Japan Trade Committee.

Some have brought progress; others have thus far failed to reach the intended results. We have brought these existing agreements and measures into the Framework process so that they will receive the full, high level, attention and resources of both the U.S. and Japanese Governments.

Where there has been progress under existing agreements, we hope to harness this momentum as a foundation for further market access. Where these agreements have fallen short, it is the responsibility of both governments within this basket to determine why and correct the problem.

Activity under this basket is critical to maintaining the credibility and efficacy of the negotiating process. We have sought to impress upon the Japanese that a substantial reason for the corrosion of our economic and trade relationship over the past decade has been precisely the issue of previous agreements

which have not reached their potential. The implementation basket offers a crucial venue for resolving these shortfalls in a bilateral approach.

We have agreed to assess each area under the Framework and to evaluate progress based upon sets of objective criteria, both quantitative and qualitative. This is a key theme of the Framework. We must see tangible, measurable results in all areas. Many of our agreements in the past have led to change in process and procedures in Japan, but we have not seen increased sales and business for American and foreign firms. This cannot continue. Change that leads to theoretical opportunities for foreigners but that allows invisible barriers to continue is no change at all.

Let me turn briefly to the remaining baskets under the Framework. In the area of autos and auto parts, we are concerned with continuing serious problems in the ability of Americans to sell vehicles in Japan as well as insufficient Japanese purchases of American auto parts for use in their auto plants in both the United States and Japan. The auto sector represents over 60 percent of our bilateral deficit with Japan. Significant progress is necessary in this area in order to make a real difference in our bilateral trading relationship.

Under economic harmonization, issues of intellectual property rights protection, insufficient access to Japanese technology, inadequate relationships between Japanese buyers and American suppliers, and serious constraints on foreigners' ability to invest in Japan all deprive Americans and other foreigners of the substantial success they should have in the Japanese market.

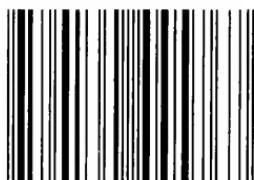
Finally, in the regulatory reform basket, over-regulation, non-transparency, and discrimination in the financial services and insurance sectors, as well as the broader issues of the Japanese distribution system and an inadequate competition law policy regime, impede globally competitive American firms.

Particularly in insurance, as to which an agreement will be tabled shortly, although Japan has the third largest insurance market in the world, foreign access has been limited perennially to only about a 2.5 percent market share. We believe that this limited foreign access to the Japanese market is caused by, among other things, the non-transparent regulatory regime, a highly concentrated industry structure, keiretsu and cross-shareholding arrangements, and a highly restricted insurance product approval process which limits innovation. The Japanese Government is aware of the need for change and is currently in the process of drafting legislation to reform the Japanese insurance industry. We plan to reach an agreement by next January that would ensure that the issues I have just listed are effectively addressed.

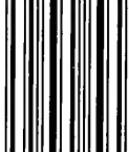
By itself, the Framework achieves no market opening. It is the beginning of a process and it is to the actual negotiations of agreements under the Framework to which our full attention and force must be directed. It is critical that the Congress and the Administration work closely on these issues that are so important to our economic future. Thank you.

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